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STATE ALSO FOR AF/E AND AF/EPS

STATE PASS USTR PATRICK COLEMAN

STATE PASS USAID/EA

STATE PASS USITC FOR ALAN TREAT, RALPH WATKINS, AND ERLAND
HERFINDAHL

STATE PASS TO DEPT OF TRANSPORTATION FOR CORNELIA HUNTER

TREASURY FOR REBECCA KLEIN

COMMERCE FOR BECKY ERKUL

TSA FOR JILLENE MACCREERY, CARLOS DE LA TORRE, AND MIRIAM MOSES

FAA FOR DONNA KRIMSKI
FAA REPRESENTATIVE DAKAR
SENSITIVE
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SUBJECT: KENYA ECONOMIC NOTES

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- [1](#)1. (SBU) GOK MOVES APACE ON AGOA FORUM PREPARATIONS

On November 11 Deputy Prime Minister/Trade Minister Uhuru Kenyatta and Acting Chief Economist Richard Sindiga told senior mission members that Kenya is delighted that the United States has accepted its offer to host the 2009 AGOA Forum in Nairobi, probably in August. Kenyatta emphasized that he wants the AGOA Forum to be much more than yet another talk-shop among trade ministers; he envisions a venue for American buyers and sellers to meet their African counterparts. In the past month, Kenyatta has remarked on several occasions that, while AGOA is the most generous trade pact Africa has ever received, Kenya and other AGOA eligible nations have not taken proper advantage of it. In mid-November he commented to the press that "it is our sincere hope that the incoming US Administration will continue to strengthen that relationship for the benefit of our people." He called upon the Obama Administration to

make AGOA a permanent fixture to make the region more attractive to investors.

12. (SBU) CIVAIR AUTHORITY RAMPING UP FOR FAA CATEGORY 1:

The Kenya Civil Aviation Authority (KCAA) has hired four flight operations inspectors to certify Kenya Airways' new generation Boeing 737s, 767s, and 777s. This hiring is a crucial step towards Kenya's achievement of FAA Category 1 status, permitting Kenya Airways to fly direct to the U.S. (or potentially code share with Delta, which plans to begin U.S.-Kenya service in June 2009.) The new KCAA inspectors must undergo specialized training prior to beginning the certifications. Achievement of Category 1 may still require another 12-18 months. Embassy Nairobi appreciates DOT's and FAA's continuing support for safer skies in Kenya.

13. (SBU) ANTI-CORRUPTION COMMISSION CONCEDES WEAKNESSES

In an October 31 meeting with EconCouns, Kenya Anti-Corruption Commission (KACC) Chairman Ringera expressed ongoing frustration with the lack of prosecutorial authority in his office. Directly connected to that complaint is the lack of support from the Attorney General's office in moving forward on cases that the KACC has thoroughly investigated. Ringera admitted that the lack of high level prosecutions on major scandals (e.g. Goldenberg and Anglo-Leasing) has hurt the Commission's and Kenya's reputation. Asked if there had been a change in government attitudes since the Grand Coalition came into office, Ringera responded simply, "same game, different faces." That said, Ringera believed the perception of corruption was worse than the real thing in Kenya. He cited a number of actions taken in recent years, including in recovering funds for the state from the Grand Regency Hotel sale, that he

believed showed success. Overall, Ringera argued that Kenya had made significant progress since 1992 in minimizing the opportunities for corruption in government.

14. (SBU) KENYA RAILWAYS: STRUGGLING TO GET BACK ON TRACK

In a recent meeting with econoffs, Kenya Railway Corporation's Managing Director said the condition of the railroad (track, locomotives, and wagons) is "the worst in 100 years." Currently, rail transports only six percent of the freight out of the port of Mombassa (on any given day, some 1,000 containers at the port are ready for delivery, yet the trains transport only a few hundred of them). The small gauge of the current track could handle 20-30 percent of port traffic if it were well-maintained. However, because of continuing inaction by concessionaire Rift Valley Railways (RVR), the MD opined it would be at least five years (and a \$300 million investment) before the railway could run at capacity. To jumpstart investment, the GOK has instructed RVR to place \$50 million in escrow by January 2009 or face cancellation of the concession; the GOK is in discussions with RVR stakeholders to permit additional infusions of capital from new investors. The MD lamented that the GOK hadn't embraced "the British approach" of an "open access system" (government maintains tracks and private railroads pay a usage fee).

Forty percent of the cargo leaving the port by rail is Uganda-bound.

According to the MD, Ugandan President Museveni has said Kenya's neglect of its railroad is equivalent to "an act of war" and "sabotage." Transportation represents as much as 45 percent of the cost of production in the region.

15. (SBU) MACRO-ECONOMIC INDICTORS SUGGEST SLUGGISH GROWTH

Tourism: In the wake of depressed tourist receipts for 3Q 2008, both government and business leaders now concede that the economy will likely grow only 4 percent this year. Compared to January-October 2007 figures, arrivals slumped 30 percent from 1.35 million to 940,000; while revenues also fell 30 percent from KSh49.25 billion (\$703.5 million) to KSh34.53 (less than \$500 million). Tourist Minister Najib Balala and Kenya Tourist Board (KTB) Chairman Jake Grieves-Cook and Managing Director Dr. Achieng Ongong'a predict the industry may not recover until Nov-Dec 2009, assuming limited damage from the global financial crisis.

Inflation: The National Bureau of Statistics reports that annual

inflation rose to 28.4 percent in October, up slightly from 28.2 percent in September, due to a 1.4 percent increase in the index for food and non-alcoholic drinks. The most worrisome development has been the doubling in price of a 2-kg bag of cornmeal, Kenya's staple food. According to the Regional Agricultural Trade Intelligence Network (RATIN), expected corn production will fall short in satisfying domestic consumption, ensuring that prices will remain high throughout 2009. RATIN predicts a shortfall of at least 400,000 metric tons. In mid-August 2008 the Kenya Food Security Steering Group estimated that 1.38 million rural Kenyans are already "highly food insecure." To boost purchasing power, the GOK has reduced the VAT on electricity by four percent and is on the cusp of introducing price caps on transportation fuel.

16. (SBU) WORKERS CALL FOR RELIEF FROM INFLATION

Workers from industries as diverse as tea farming to airline engineering continue to demand higher wages to compensate for inflation. Kenyan employers and unions are bracing for hard bargaining over salaries, which haven't kept pace with rising prices. On November 18, the Kenya National Union of Teachers, which has been negotiating with government since May, announced a January 2009 deadline to reach agreement or strike. By some accounts, employers need to increase wages by 30 percent in 2009 to give workers the same purchasing power they had in 2005. After a "go-slow" last summer, port workers negotiated a forty percent pay increase in September. Union leaders and Ministry of Labor officials are also exhorting employers to implement the country's labor laws, which mandate the timely conversion of temporary workers to the formal sector.

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